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Mr. Timothy Rushenberg
General Counsel
Department of Local Government Finance
Indiana Government Center North
100 North Senate Avenue, Room N1058
Indianapolis, IN 46204

Re: LaPorte County Ratio Studies

In my January 24, 2008 letter to you, I offered a commentary on the sales ratio study submitted by LaPorte County. In Part II of that commentary, I discussed LaPorte County's practice of sales chasing. Section 15 of the IAAO Standard on Ratio Studies describes sales chasing as follows:

Sales chasing is the practice of using the sale of a property to trigger a reappraisal of that property at or near the selling price. Sales chasing causes invalid uniformity results in a sales ratio study and causes invalid appraisal level results unless similar unsold parcels are reappraised by a method that produces an appraisal level for unsold properties equal to the appraisal level of sold properties.

My January 24 commentary included an analysis prepared by Mr. Denne showing that there is a greater than 99.9% level of confidence that sales chasing has occurred in LaPorte County. While the data and analysis demonstrated that the County undoubtedly did chase sales, the analysis did not describe the methods LaPorte used to treat sold properties differently from unsold properties, which, in turn, invalidated the County's ratio study. This letter provides that additional analysis, and highlights the methods LaPorte County used to treat sold properties differently from unsold properties.

Initially, I should point out that the IAAO Standard, which is incorporated by 50 IAC 21-3-1, prohibits the practice of treating sold properties differently from unsold properties. The exact method used to treat them differently doesn't matter; so whether the properties are treated differently by changing age, grade, condition or just the bottom line assessed value, each type of change is equally impermissible. Nonetheless, it seemed that an examination of the methods

Nexus used might be of interest to the Department and so Mr. Denne has reviewed the data submitted by LaPorte County to see if statistically significant patterns exist. As will be detailed below, they do.

Specifically, Mr. Denne reviewed five subjective characteristics: grade, condition, effective date of construction, physical depreciation and obsolescence depreciation. He then examined the LaPorte sales and assessment data to see whether sold and unsold properties were treated the same in relation to these five characteristics. The results of his analysis are attached as Exhibit 1.

A brief explanation of Exhibit 1 may assist the reader. The first and most meaningful Table is Table 2A. Table 2A examines all of the five named subjective factors together. The Tables that follow examine each factor on its own: Table 2B examines grade, Table 2C examines condition, etc.¹

The overall pattern of the various tables is exemplified by Table 2A. The right half of Table 2A compares changes in sold properties with changes in unsold properties on a simple percentage basis. For example, looking at line number 1, in Cass Township, 8.3% of unsold properties received assessment changes in one or more of the five subjective categories, while 12.3% of the sold properties received assessment changes in one or more of the five subjective categories. The results of the chi square p-test are shown on the left hand side of the page.² Again, looking at line 1, the chi square result is .159, meaning there is a 15.9% likelihood that the differences are caused by chance.

By way of comparison, line 2 shows that, in Center Township, one can be more than 99.9%³ certain that the differences in treatment between sold and unsold properties were not caused by chance. The converse is equally true and more readily understandable: in Center Township, there is less than a 0.1% likelihood that the differences between sold and unsold properties are caused by chance. As one examines the individual townships, the column with the asterisks shows that in 14 of the 21 townships there is less than a 0.1% chance that the differences between sold and unsold properties is a product of chance.

¹ Though Table 2E includes "neighborhood quality" as a subjective factor studied, ultimately neighborhood quality was not included in the test since it is not parcel-specific. Table 2G analyses a change made on the basis of obsolescence depreciation, and is included for purposes of completeness, but is of limited usefulness due to the relatively low overall incidence of changes to this characteristic.

² The "Chi-Square P-test" examines the likelihood that differences between observed occurrences are the result of "chance." The lower the result of the chi square test, the less likely it is that the differences are caused by chance.

³ While the text next to the double asterisk indicates that the confidence level is 99% "or higher," the actual chi square value is shown as .000, meaning that there is less than a 0.1% likelihood that the differences were caused by chance.

Mr. Timothy Rushenberg
March 10, 2008
Page 3

What do the statistics tell us about the treatment of sold and unsold properties on a county-wide basis? The top line of the data labeled "County Overall" reveals the answer. The right side of the "County Overall" line shows that 15.4% of the unsold properties in the county-wide sample received an assessment change in one or more of the five subjective factors, while almost twice as many of the of the sold properties (29.3%) had one or more of those five factors changed. The chi square test reveals that the likelihood that these differences were the product of chance is less than 0.1%. In other words, we can say to a 99.9% certainty that the differences between the sold and unsold properties were the product of impermissible assessment action: sales chasing.

Mr. Denne's analysis confirms the analysis submitted with my January 24 letter. The LaPorte County sales assessment ratio studies are flawed and the assessments in the county are neither uniform nor equal. Finally, we note that the Department has ordered reassessment in a number of counties in Indiana on the basis of information that is equal to or less compelling than the information provided in Mr. Denne's analyses. Based on the detailed evidence that the LaPorte County's ratio studies are flawed and based on the additional evidence of sales chasing provided here, the Department should order a reassessment.

Very truly yours,

Thomas M. Atherton

TMA:
Enclosure

CC Shaw Friedman via email